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UNCLAS SECTION 01 OF 04 ABU DHABI 000864

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TAGS: [PTER](#) [KTFN](#) [EFIN](#) [ETTC](#) [TC](#)
SUBJECT: STAFFEDL FISCHER EXPLORES UAE REGULATIONS ON
TERROR FINANCE, MONEY LAUNDERING

REF: ABU DHABI 4218

¶1. (SBU) Begin summary. Visiting Senate Banking Committee Staffdel met with UAE Minister for Economy Sheikha Lubna Al-Qasimi and officials from the Central Bank for briefings on the regulatory regime for all financial institutions in the UAE -- including money changers, hawaladars, stock exchanges, and the Dubai International Financial Center (DIFC). The Central Bank Governor also discussed UAE training programs designed to help financial institutions identify and track suspicious transactions. The Central Bank examines all financial institutions yearly and requires them to submit detailed records of incoming and outgoing remittances. To date, the UAE has registered 155 hawaladars.

¶2. (SBU) (Summary continued.) The Staffdel also met UAE's Ministry of Labor Undersecretary for Social Affairs, who described how UAE regulatory requirements for charities ensure that UAE charitable contributions go to legitimate causes. Among the regulations, the UAEG allows only three designated charities to send contributions out of the country, and it requires all Zakat donations in mosques be made in the form of bank transfers, not cash donations. End summary.

¶3. (U) Staffers Dr. Walter Fischer, John O'Hara, and Steve Kroll from the United States Senate Banking, Housing, and Urban Affairs Committee met with UAE officials on February 19

to discuss UAE efforts to combat money laundering and terror financing. They met with Minister of Economy and Planning Sheikha Lubna Al-Qasimi, MFA Undersecretary for Foreign Affairs Abdullah Rashid Al-Noaimi, Central Bank Governor Sultan Nasser Al-Suwaidi, and Ministry of Labor Undersecretary for Social Affairs Mariam Al-Roumi. The UAE officials explained the UAE's systems for stopping terror finance and money laundering, and requested more U.S. sponsored training and intelligence information. February 20 meetings in Dubai with bankers will be reported septel.

Regulating Financial Institutions and Transactions

14. (SBU) In a detailed discussion about UAE efforts to combat money laundering and terror financing, Al-Suwaidi outlined the Central Bank's mechanisms for monitoring UAE financial systems. He stressed, "We have to be leaders in regulating our banking system because we are the gateway to another world" (ie: between countries with well regulated financial systems and those with more lax regulatory systems). In response to the UAE's obligations under UNSCR 1267 to freeze assets belonging to or associated with the Taliban or Al-Qaida, the UAE Central Bank has frozen 17 accounts totaling over \$1 million. There are 47 banks in the UAE (21 national and 26 foreign), 106 money changers, and 155 registered hawalas, and each of these institutions is required to submit to yearly examinations, provide quarterly reports on remittances, and abide by "Know Your Customer" (KYC) policies. The Central Bank provides training and technology to help financial institutions abide by these regulations.

-- Examinations. The Central Bank has 85 examiners on 15 teams, and each team is responsible for monitoring a designated set of banks, money changers, and hawalas. The teams use a "risk-based" examination model developed and implemented by the Central Bank three years ago. Imbedded in this model are checks to uncover possible money laundering activities. The Central Bank examines each financial institution at least once a year, but the teams are responsible for monitoring their designated institutions throughout the year. After every examination, the Bank issues a report highlighting problem areas and offers suggestions for improvement. The financial institutions are expected to take positive steps to resolve the Central Bank's concerns. The Central Bank holds CEOs personally liable for transactions processed through their institutions. If an organization does not comply with reporting requirements, the Central Bank can impose fines and/or recommend the case to the Attorney General for prosecution. The Governor stated that administrative penalties (such as fines) have been assessed more often than criminal penalties.

-- Remittance Reporting/Know Your Customer. All financial institutions are immediately required to report any suspicious transactions, and every three months they are required to submit detailed records itemizing incoming and outgoing remittances. Additionally, the Bank holds all financial institutions to strict KYC standards (including the requirement to maintain customer records for a minimum of five years and periodically update the records as long as the account is open.)

-- Training Programs. The Governor stressed that the Central Bank is interested in quality, not quantity of suspicious transaction reports (STRs). In order to help financial institutions recognize when a report should be filed, the Bank offers free training sessions. Additionally, the Central Bank conducts one-on-one training sessions with every registered hawaladar to ensure they understand their reporting requirements. According to Governor Al-Suwaidi, the objective of the training is twofold: "to convince them that we want only genuinely suspicious cases reported -- not rubbish -- and to make the players emotionally involved and sympathetic to the cause" of stopping money laundering and terror finance.

-- Technology. The Central Bank is in the process of implementing a computer system for money changers that will automatically send a record of each transaction to the Central Bank at the time the transaction is conducted, and Governor Al-Suwaidi said he plans to eventually provide computers to hawaladars so they can use the system.

15. (U) The four year old UAE stock market system is evolving and developing. The Securities and Commodities Authority (SCA) supervises the country's two national stock markets (the Dubai Financial Market and the Abu Dhabi Securities Market). Minister of Economy and Planning Sheikha Lubna Al-Qasimi explained that in 2004, the SCA issued reporting requirements and regulations to the stock markets that mirror those the Central Bank uses for other financial institutions.

The two stock exchanges consist of 55 companies, and according to Sheikha Lubna, the SCA is looking to eventually merge the two markets into one national stock exchange. Foreign companies are allowed to list on either the DFM or the ADSM if they are dual listed in their home country and meet certain profitability criteria. Sheikha Lubna expressed interest in visiting the U.S. to see how the stock market and securities and exchange commissions are structured and regulated.

16. (U) UAEG interlocutors also briefly discussed Dubai's "financial free zone," the Dubai International Financial Center (DIFC), which is subject to UAE laws against money laundering and terror finance. Although the DIFC has its own regulatory body, the Dubai Financial Services Authority, the UAE Central Bank is playing an active role in monitoring the DIFC. According to Governor Al-Suwaidi, the Central Bank currently has an examination team at DIFC that will submit a report to the Cabinet on its findings. MFA Undersecretary Abdullah Rashid said, "DIFC is part of one UAE system. The Central Bank will license, monitor, and follow-up to ensure that transactions are smooth and controlled, just like the Bank does for the other banks in the country." February 20 meetings in Dubai with officials from the Dubai Financial Services Authority will be reported septel.

UAE Addresses Challenges Unique to Hawala Regulation

17. (U) In 2002, the UAEG began requiring all hawala dealers (hawaladars) to register with the Central Bank, and as of February 2005, 155 hawaladars have registered (131 of which have been examined and issued "non-objection certificates"). The Bank is aware that not all hawaladars have engaged in this process, but its officials do not have an estimate of how many unregistered hawaladars continue to operate in the country. In a discussion about the challenge of persuading hawaladars to register, MFA Undersecretary Abdullah Rashid said, "we must convince them that it is in their best interest to submit to the registration."

18. (SBU) The Central Bank Governor noted that people feel comfortable using the hawala system, and that he has not seen a decrease in their usage since the establishment of registration requirements. The Governor did acknowledge that very few hawaladars have submitted STRs, but he said that whenever remittance reports denote a large transaction, an examiner asks the hawaladar for more information.

19. (SBU) The UAE serves as an example to other countries in the region on how to regulate informal flows of remittances. Abdullah Rashid said that other countries have asked the UAE to show them how to regulate their hawaladars. (Note: the UAE will host the 3rd annual International Hawala Conference April 2-3 in Abu Dhabi. The conference is designed to share best-practices and work toward creating international standards for hawaladar regulation.)

Money Laundering, Use a Different Rubric

¶10. (SBU) Governor Al-Suwaidi believes that the United States and the international community need to adopt separate approaches for halting the flow of money laundering versus terror financing. "You can't use the same yardstick," he said, because in money laundering the crime occurs first, then the money is filtered in a way that makes it "clean," and then it is re-circulated into the financial system. With terror financing, said al-Suwaidi, originally "clean" money is being used to fund illegal activities.

¶11. (SBU) The Central Bank Governor categorized the influx of laundered money into three subsets -- the largest source is from wire transfers into the UAE, the middle source is from cash couriers entering the country, and the smallest is generated in the local economy. He said that the Bank is aggressively working to identify and stop the wire transfers, but since the UAE economy is so reliant on international transactions, it is not feasible to require real-time reporting for all cross-border wire transfers. Instead, the Bank monitors the end-use of transfers and considers transactions suspicious if incoming money is immediately wired out of the country.

Strict Monitoring of Charitable Giving

¶12. (SBU) The UAE Ministry of Labor registers and monitors all charitable organizations within the UAE (there are currently 18 registered charities), and the UAEG requires that all charitable donations directed overseas be channeled through one of three government-approved charities for international contributions (the UAE Red Crescent Authority, the Sheikh Zayed Charitable Foundation, and the Mohammed bin Rashid Al-Maktoum Charitable and Humanitarian Foundation, reftel). According to Ministry of Labor U/S for Social Affairs Mariam Al-Roumi, these three organizations ensure that overseas transfers go to legitimate parties. All of the other charitable organizations fund causes only within the UAE or send their donations through the above three charities. The Ministry of Labor has a staff of 32 people who are responsible for licensing and auditing charities. They submit quarterly reports on charities' activities, and at least one Ministry official must attend every charitable function held in the UAE, said al-Roumi.

¶13. (U) The Ministry of Labor requires charities to submit records identifying the donor, amount, and beneficiary for all charitable donations, even those for causes in the country. Additionally, mosques are not allowed to collect cash contributions. In the UAE, all zakat donations are bank-to-bank transfers. People who wish to donate fill out transfer forms and place them in zakat boxes located in the mosques.

¶14. (SBU) According to Al-Roumi, people have responded favorably to the donation regulations, because they want to ensure their donations go to legitimate causes and are not diverted, even though Islamic charitable giving has historically been anonymous. She also stated that the reporting requirements have not caused a decrease in charitable giving overall. Charities' yearly financial reports show that people are donating the same amount of money as they did prior to September 11, 2001, but the majority of it stays in the UAE, as opposed to being sent out of the country for international causes. "We don't want problems like those of Saudi Arabia. We believe it is important to have a settled society, and regulating charitable giving is one element of ensuring that stability."

¶15. (U) There is no regional umbrella for regulating charities, but Al-Roumi believes it is a good idea. The countries in the region meet and exchange ideas, but to date, the coordination has been informal and there is no regional standard.

What Can the U.S. Do? - Provide Training and Intelligence

¶16. (SBU) UAE officials stated that the most useful way the United States can assist the UAE is to provide more training and intelligence information. Abdullah Rashid stated that the UAE could benefit from our reservoir of knowledge, experience, and technology, and he asked us to continue to train UAE officials. He also said that UAE officials would like the United States to share more intelligence information, and noted that sometimes information provided by the U.S. is not detailed enough to be useful, and that sometimes the USG never responds to requests for additional information.

¶17. (SBU) The Central Bank Governor also appealed for more information and training, noting that the UAE is a small country with small intelligence resources. According to Central Bank statistics, from December 2000 to January 31, 2005, the Anti-Money Laundering and Suspicious Cases Unit (which serves as the UAE's financial intelligence unit) reviewed 2,273 STRs, and 48 of those cases were referred to the Attorney General for prosecution. Governor Al-Suwaidi noted that one reason for so few prosecutions is because the evidence is often not provided in channels that can be used in court. Additionally, Al-Suwaidi said that he would like early notification when the U.S. is investigating persons suspected of money laundering or terror financing activities (before they are placed on an official watchlist).
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